

Message Text

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PAGE 01 MANILA 13713 080831Z

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ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 H-02 PA-01 PRS-01 IO-13 /095 W

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FM AMEMBASSY MANILA

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USADB

FOR NAC AGENCIES

PASS TREASURY FOR ERB/ZINMAN

E.O. 11652: ADS, DECLAS: 12/8/76

TAGS: EAID, EFIN

SUBJECT: ADB PREMIUM RATE

REF: TREASURY TELEGRAM 0321422 SEP 76

1. ON 7 SEPTEMBER ADB BOARD OF DIRECTORS APPROVED ADB PRESIDENT'S PROPOSAL TO REDUCE PREMIUM ON LENDING RATE FROM 75 TO 60 BASIS POINTS WHICH RESULTS IN NEW LENDING RATE OF 9.70 PERCENT COMPARED WITH 9.50 PERCENT. NEW RATE IS TO BE EFFECTIVE FROM 8 JUNE 1976 ON LOANS TO BORROWING MEMBER COUNTRIES WITH PER CAPITA GNP OF MORE THAN \$850 IN 1972 (I.E., SINGAPORE AND HONG KONG). ADB PRESIDENT AGREED TO PREPARE THOROUGH REVIEW OF PREMIUM RATE POLICY AND CRITERIA FOR GRADUATING HIGH INCOME COUNTRIES FROM BORROWING ADB RESOURCES. US DIRECTOR ASKED THAT NO LOANS TO AFFECTED COUNTRIES BE CONSIDERED UNTIL BOARD REVIEW IS COMPLETED.

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PAGE 02 MANILA 13713 080831Z

2. AUSTRALIAN DIRECTOR, WHO REPRESENTS HONG KONG ON BOARD, PROPOSED AMENDMENT TO ABOLISH PREMIUM RATE AND WAS DEFEATED BY OVERWHELMING MARGIN. US DIRECTOR STRESSED NEED TO CONTINUE 75 BASIS POINT PREMIUM AS PART OF GRADUATION POLICY FOR HIGH INCOME COUNTRIES BUT WOULD RELUCTANTLY AGREE TO COMPROMISE PROPOSED BY BANK AND JOINED OTHER DIRECTORS IN SUPPORTING NETHERLANDS ALTERNATE DIRECTOR'S REQUEST THAT BANK PREPARE REVIEW OF GRADUATION POLICY. ALTHOUGH COUNTRY POSITIONS BY DIRECTORS CLEARLY INDICATED OVERWHELMING CONSENSUS FOR BANK PROPOSAL AND AGAINST PROPOSED AMENDMENT, AUSTRALIAN DIRECTOR REQUESTED FORMAL VOTE WHICH RESULTED IN 22.8 PERCENT SUPPORT AND 61.9 PERCENT AGAINST WITH 14.5 PERCENT ABSTAINING.

3. AFTER ADB PRESIDENT ANNOUNCED CONSENSUS SUPPORTING BANK PROPOSAL, AUSTRALIAN DIRECTOR REQUESTED FORMAL VOTE ON PRESIDENT'S PROPOSAL ITSELF, EXPLAINING THAT HONG KONG MAY DECIDE NOT TO BORROW AT PREMIUM RATE AND MIGHT CONSIDER REVIEWING MEMBERSHIP IN ADB. FINAL VOTE WAS 22.8 PERCENT AGAINST AND 76.5 PERCENT FOR PRESIDENT'S PROPOSAL WHICH INCLUDED VOTES OF ABOUT 11.2 PERCENT SUPPORTING MAJORITY.

4. REASONS FOR EXTRAORDINARY SHIFT IN POSITIONS BY DIRECTORS APPEARED TO BE (1) EXAGGERATED AND ERRONEOUS ARGUMENTS AGAINST PREMIUM RATE BY AUSTRALIAN DIRECTOR AND (2) TACTICS WHICH GAVE IMPRESSION THAT DIRECTORS WERE BEING THREATENED TO GRANT PRIVILEGES TO TWO HIGH INCOME COUNTRIES AT THE EXPENSE OF BANK AND OTHER MEMBER COUNTRIES. U.S. DIRECTOR JOINED INITIATIVE OF CANADIAN DIRECTOR AND HIS NETHERLANDS ALTERNATE IN EFFORT TO PERSUADE OTHER DIRECTORS FROM DEVELOPED MEMBER COUNTRIES TO SUPPORT PRESIDENT'S PROPOSAL AND TO CONVINCE DIRECTORS FROM BORROWING MEMBER COUNTRIES TO ABSTAIN OR VOTE WITH MAJORITY.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, DEVELOPMENT LOANS, INTEREST RATES
Control Number: n/a
Copy: SINGLE
Draft Date: 08 SEP 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: greeneet
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976MANILA13713
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: DG ALTERED
Executive Order: N/A
Errors: N/A
Film Number: D760338-1353
From: MANILA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760982/aaaacshq.tel
Line Count: 98
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: greeneet
Review Comment: n/a
Review Content Flags:
Review Date: 26 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26 MAY 2004 by BoyleJA>; APPROVED <20 SEP 2004 by greeneet>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ADB PREMIUM RATE
TAGS: EAID, EFIN, ADB
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006